

M e m o r a n d u m

To: Panel Members

Date: September 22, 2006

From: Ruby Cohen, Manager

Analyst: J. Daunt

Subject: One-Step Agreement for **PROGRESSIVE CASUALTY INSURANCE COMPANY**

CONTRACTOR:

- Training Project Profile: Retraining: Companies W/Out-Of-State Competition
- Legislative Priorities: Moving To A High Performance Workplace
- Type of Industry: Finance and Insurance
- Repeat Contractor: Yes
- Contractor's Full-Time Employees
 - *Worldwide:* 25,000
 - *In California:* 1,250
- ETP Trainees Represented by Union: No
- Name and Local Number of Union Representing ETP Trainees: N/A

CONTRACT:

- Program Costs: \$391,950
- Substantial Contribution: \$0
- Total ETP Funding: \$391,950
- Total In-kind Contribution: \$415,500
 - *Trainee Wages Paid During Training:* \$415,500
 - *Other Contributions:* \$0
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Sacramento

INTRODUCTION:

Progressive Casualty Insurance Company offers insurance covering the ownership and operation of private passenger automobiles, commercial automobiles, motorcycles, boats and personal watercraft, recreation vehicles, SegwayTM Human Transporters, and other personal-use motorized vehicles in all states, except for Massachusetts and New Jersey.

Progressive Casualty Insurance Company operates an inbound call center in Rancho Cordova, California. The center manages incoming calls pertaining to insurance claims, as well as all other matters related to insurance policies and other account management concerns of the company's customers. Company representatives state no telemarketing takes place at this facility.

The facility is eligible for standard retraining under the out-of-state competition provisions outlined under Title 22, California Code of Regulations, Section (CCR) 4416(h)(1-5) as a call center.

The proposed training will provide skills training to 450 company employees, allowing the company to continue to upgrade the high performance workplace environment, to facilitate the introduction of new initiatives, to train workers in the optimal use of Progressive's new operating system, and to improve customer service and productivity overall.

MEETING ETP GOALS AND OBJECTIVES:

Progressive proposes training that will further the following ETP goals and objectives:

- 1) To foster job retention in industries threatened by out-of-state competition.
- 2) To promote high wage jobs within the state.
- 3) To develop frontline workers with skills that prepares them for the transition to a high performance workplace.

TRAINING PLAN TABLE:

Job Number / Trainee Type	Types Of Training	No. Retain	No. Class / Lab Video- conf. Hrs.	No. CBT Hrs.	Cost Per Trainee	Hourly Wage After 120 Days
Job Number 1 Retrainee	MENU: Business Skills Commercial Skills Computer Skills Continuous Improvement Management Skills	390	24-200	24- 200	\$1,005	*\$12.55- \$37.45
<p align="center"><u>Wages After 120-Day Retention</u></p> <p align="center"><u>Occupations</u></p> <p>Customer Service Representatives Service Response Personnel Coaches Managers</p>						
<u>Health Benefits Used To Meet ETP Minimum Wage:</u> Health, dental, and/or vision benefits of at least \$1.00 may be added to the trainee's wages in order to meet the ETP minimum hourly rate of \$12.55 for Sacramento County.				<u>Turnover Rate</u> 30%	<u>% Of Mgrs & Supervisors To Be Trained:</u> 10%	
<u>Other Employee Benefits:</u> Child Care Subsidy, Life Insurance, Disability Insurance, 401K, Self-Directed Retirement Plan, Education Assistance, Referral Awards, Service Anniversary Awards, and Gainsharing Program						

COMMENTS / ISSUES:

➤ ***Frontline Workers***

All participants in this project meet the Panel definition of frontline workers under CCR, Section 4400(ee), with the exception of 39 managers/supervisors constituting 10% of the total trainee population of 390.

➤ ***Production During Training***

The proposed Contractor agrees that during ETP-funded training hours, trainees will not produce products or provide services which will ultimately be sold.

➤ ***Turnover***

Progressive experienced a turnover rate of 30% at the Rancho Cordova facility in Calendar Year (CY) 2005. Although the governing regulation requires an annual turnover rate of no more than 20%, the Panel may accept a higher rate if it determines that: 1) the proposed training will significantly decrease turnover, or 2) the facility experienced a singular "occurrence" that adversely affected the rate in the past calendar year, or 3) industry data supports a higher rate. (CCR, Section 4417.)

COMMENTS / ISSUES: (continued)

Turnover (continued)

Before exploring this issue further, it is important to understand the history of turnover rates at the Rancho Cordova facility. For one thing, CY2005 applies to the review of turnover for the proposed ETP Agreement (ET07-0174) and also affected performance under a prior ETP Agreement (ET05-0140; see Active Projects at p.7).

For that prior Agreement, the Panel reviewed the facility's turnover rate for CY2003 which was 23%. Although low in comparison to the 30% rate for CY2005, it was still higher than the Panel's 20% benchmark.

Thus, the prior Agreement included a standard "forfeiture clause" withholding the final payment (typically 25% of payment earned) unless the rate came down to 20% or less in the last 12 months of the Agreement term. Since that 12-month period was CY2005 with 30% turnover, Progressive forfeited the final payment.

The question remains, why did the facility's turnover rate raise from 23% in CY2003 to 30% in CY2005? This issue is further complicated by the fact that the turnover rate in the intervening year, CY2004, spiked at almost 40%. Progressive explained that this unusual pattern in turnover resulted from a new product campaign in CY2003 that resulted in 259 new hires at the Rancho Cordova call center. This is almost three times more than the normal number of new hires for that facility in a given calendar year, which tended to deflate turnover in 2003 and inflate it in 2004. Under normal conditions, Progressive states, its call center turnover runs about 25% to 30%. For CY2006, based on employee separations to date, the company is projecting annual turnover at the Rancho Cordova facility at 24.7%.

Progressive believes the proposed training will help reduce turnover at that facility, although the company cautions that high turnover is typical for the call center industry. According to an article in *Insurance & Technology* (March 2004) employee turnover at inbound automobile insurance call centers averages 40 percent. In a similar article published in *Distribution Management Briefing* (November 2002) Brian Huff, an industry analyst and the author of a statistical compilation of call center costs, stated that "the turnover rate for U.S. call centers can be as high as 90 percent."

Furthermore, Progressive reports that it is taking active steps to reduce employee turnover. In late 2004, it introduced a new "On-Boarding Process" whereby the manager who hires a new employee remains as that employee's supervisor. As part of this process, the company provides both orientation training and specialized training for up to 18 weeks. At the beginning of 2006, Progressive expanded the scope of their Work Environment Index (WEI) from an annual survey of employee satisfaction with the workplace environment, to a quarterly survey. Management at the Rancho Cordova facility uses the survey results to make changes in the workplace that reflect the employee point-of-view, which will now occur on a more frequent basis. Also, in late 2005, the company replaced its standardized assessment process at the completion of the first round of training with a more personal assessment that includes coaching. Recently, Progressive initiated call simulation exercises during the interview process as a screening, to assist in hiring persons who are more likely to stay.

COMMENTS / ISSUES: (continued)

Turnover (continued)

Since the company's explanation of turnover meets many of the Panel's standards under CCR, Section 4417, staff supports this proposal despite the 30% turnover rate in CY2005. Progressive is requesting a waiver of the turnover forfeiture clause. However, instead of a waiver, staff recommends modifying the benchmark from 20% to 25%, along with two other conditions designed to reduce turnover and improve job stability. In all, this would be a total of three contracting conditions:

1. Set a turnover ceiling of 25% for CY2006 which, if surpassed, would result in forfeiture of the final payment;
2. Establish the final payment at 35% of payment earned instead of the usual 25%; and,
3. Impose a 120-day retention period instead of the usual 90-day period.

Progressive representatives have already agreed to these three conditions as a condition of funding. Given the skewed calculation of turnover in CY2003, the high industry standard, and the steps Progressive has taken to reduce turnover, recommends approval of this proposal with the three conditions set forth above.

RECOMMENDATION:

Staff recommends approval of this proposal with the three turnover rate conditions because the proposed training is designed to improve company procedures, increase worker productivity, enhance workplace flexibility, and move the company closer to a high performance workplace, thereby increasing Progressive's opportunities for future profitability and growth.

NARRATIVE:

Founded in 1937 as Progressive Mutual Insurance Company in Mayfield Village, Ohio, Progressive has grown into a nationwide business offering personal and commercial property and casualty insurance products and related services, primarily involving vehicles. Representatives state that Progressive is the third largest private passenger auto insurance company in the United States.

According to company representatives, the focus of the proposed training project is to place Progressive into what the representatives call the "best position to meet the coming changes in the automobile insurance business." In practical terms, the company's proposed training focuses on improving customer service, enhancing Progressive's service delivery process, and providing instruction in a more advanced and up-to-date billing system. The greater part of the proposed curriculum – Business Skills, Commercial Skills, Continuous Improvement, and Management Skills – is designed to contribute to Progressive's aim of an across-the-board improvement in its communications with customers, according to company representatives.

NARRATIVE: (continued)

Concerning the remainder of the proposed curriculum, company representatives state that Progressive is continuing and accelerating its efforts to improve billing systems. Two years ago, according to the representatives, Progressive's quality improvements included systems navigation training in what was then the new billing system, called ProBill. Company officials have determined that Progressive's current use of ProBill can be productively augmented by a more advanced system called PolicyPro, which the company is currently implementing. The representatives state that PolicyPro is expected to have a positive impact on productivity among employees. For this new system, training is required, and forms the bulk of Computer Skills portion of the curriculum.

The following summarizes the respective portions of the curriculum included in Progressive's proposed training:

Business Skills – The focus will be on improving telephone communication and overall customer service. Progressive officers have determined that a primary need over the next two years is to provide more customer service skills training than has been provided previously. Company representatives state that, to maximize potential benefits, Progressive has designed the Business Skills portion of the curriculum to be primarily comprised of Customer Service with the goal of a smooth delivery of complete customer service to all customers. Course topics include (but are not limited to) Enhanced Communication Styles, Sophisticated Call Handling, Enhanced Call Guidelines, Call Navigation, Customer Retention, Issue Identification, Decreasing Handle Time and Advanced Skills for Managing Turnaround Time.

Commercial Skills – Progressive has determined that further progress toward a high performance workplace will be achieved through cross training, according to company representatives. A major portion of Commercial Skills will consist of cross-training the traditional skills of customer service representatives with those of Service Response Personnel. The company's goal is to reduce the costs of employee downtime and increase job variety and employee efficiency.

Continuous Improvement – Representatives state that Progressive is using more finely tuned statistical process control tools, as well as cause analysis methods and a heightened attention to customer feedback. For the most productive use of these tools, training is required, according to the representatives. Additionally, the representatives state that workers at the Rancho Cordova facility require improved skills in teambuilding, problem solving, and effective decision making. Specific Continuous Improvement topics include (but are not limited to) Effective Problem Solving, Team Dynamics, Service Delivery Process Improvement, Process Flow, Quality Control, Process Control, and Advanced Decision Making.

Computer Skills – Company representatives state that in addition to updating Progressive's ProBill system (based on customer feedback), the company is in the process of implementing a more efficient operating system, PolicyPro, for which training is required. Computer Skills training will provide the required occupational skills for the most effective use of the new billing system, with expected improvements in operations. In addition to New Billing System Training, topics will include Operations System Enhancement Training, Personal Data Management, Attendance Database, Systems Navigation Training, and related skills.

NARRATIVE: (continued)

Management Skills – Company representatives state that an additional portion of the company's managers at the Rancho Cordova facility lack the skills required for effective team dynamics and leadership. The company has recently promoted a number of frontline workers into managerial positions. These individuals did not receive this training under the previous ETP project, and would therefore attend Management Skills classes under the current proposal, specifically in Managing for High Performance, Effective Project Management, Transitional Leadership, Team Dynamics for Managers, and related skills.

Commitment to Training

ETP funding will not displace the applicant's resources for training. Company representatives state that Progressive's current annual training budget is \$755,784.

According to the representatives, the following training has been and will continue to be provided by Progressive to its employees on an as-needed basis, separate and apart from the ETP proposed training:

1. On-the-job training for frontline workers;
2. New-hire orientations;
3. California State Mandatory Insurance Certifications;
4. Refresher training courses for those needing individualized attention; and
5. General sales training.

Company representatives state that the prior ETP training project focused on Progressive's initiative to provide "virtually perfect customer service." The representatives acknowledge that training in the previous Agreement appeared under the same generic Curriculum headings of Business Skills, Commercial Skills, Computer Skills, Continuous Improvement, and Management Skills as those submitted in the current application. However, they state that no training class or training module will be provided to any employee who received it under the previous Agreement. No single individual will receive the same training twice.

Progressive's representatives also point out that significant portions of the current Curriculum are entirely new. They state that at the time of the previous contract, a then-new billing system (ProBill – see above) had been implemented and the applicable training was delivered accordingly; however, the company has since adopted another newer system, called PolicyPro, for which the training will be new. The representatives add that this is only one example, and that the company has included training in various new methods and procedures under the curriculum accompanying this application. Again no training will be repeated.

Company representatives state that in the years following the completion of the ETP Agreement, Progressive intends to continue to provide significant amounts of training, in order to build on the foundation of ETP funding, with the overall goal of sustaining the employees' skill levels and the company's business viability.

THIRD PARTY SERVICES:

Deloitte Tax LLP provided project development assistance to Progressive based on a time-and-materials agreement. The amount is anticipated to be between \$50,000 and \$70,000.

SUBCONTRACTORS:

None

PRIOR PROJECTS: None

ACTIVE PROJECTS:

The following are current project statistics:

ACTIVE PROJECTS						
Agreement Number	Agreement Amount	Term	Planned Number To Be Retained	Number Enrolled	Number Completed Training	Number Retained For 90 Days
ET05-0140	\$696,800	07-05-04 – 07-04-06	800	548	413	413

Comments: The above-charted figures indicate that approximately 52 percent of the planned trainees will have completed training and retention. Contractor representatives state that while the company had originally anticipated better performance, there were unanticipated adjustments in the occupational duties of Rancho Cordova employees, and the Claims Resolution Group, which had originally been scheduled to receive training, was dropped from the training project. The Contractor anticipates no such changes over the next two years. In addition, the Contractor's current proposal, with a more modest number of planned trainees (390) is designed for greater success.

PROGRESSIVE CASUALTY INSURANCE Menu Curriculum

Hours
Class Lab
24 – 200

Trainees will receive any of the following:

BUSINESS SKILLS

- ❖ Enhanced Communication Skills
- ❖ Challenging Calls
- ❖ Call and Processing Center Quality Tools and Analysis
- ❖ Negotiation Skills
- ❖ Advanced Customer Service Skills
 - Managing Turnaround Time
- ❖ Advanced Product Knowledge
- ❖ Strategic Planning
- ❖ Delivering Feedback
- ❖ Customer Retention
 - Digging Deeper
 - Issue Escalation
 - Friendly Fire
- ❖ Specific Branding Communications
- ❖ Five-Star Handling of Agent's Calls
- ❖ Agent Call Workshops
- ❖ Master Service Delivery
- ❖ Call Navigation
- ❖ Sophisticated Call Handling
- ❖ Enhanced Call Guidelines
- ❖ Customer Service for Quality Concierge-level Service
 - Issue Identification
 - Decreasing Handling Time
- ❖ Customer Service During Catastrophic Times

COMMERCIAL SKILLS

- ❖ New Developments in Policy Services
- ❖ Claims Services – Cross-Training
- ❖ Advanced Policy Services Issues
- ❖ Advanced Products Training
- ❖ Policy Processing – Cross-Training
- ❖ Brand Training
- ❖ Progressive Corporate New Initiatives

PROGRESSIVE CASUALTY INSURANCE
Menu Curriculum (continued)

COMPUTER SKILLS

- ❖ Attendance Database
- ❖ Nice Systems Training
- ❖ PDMS (Personal Data Management System)
- ❖ Advanced Word-processing
- ❖ Agency Systems
- ❖ Advanced Agency Systems
- ❖ New Billing System Training
- ❖ Operations System Enhancement Training
- ❖ Systems Navigation Training

CONTINUOUS IMPROVEMENT

- ❖ Advanced Decision Making
- ❖ Advanced Presentation Skills
- ❖ Effective Time Management
- ❖ Effective Problem Solving
- ❖ Team Dynamics
- ❖ Service Delivery Process Improvement
- ❖ Process Flow
- ❖ Quality Control
- ❖ Process Control
- ❖ Problem Solving for Agent Calls

MANAGEMENT SKILLS -- *These classes shall be provided to Managers only.*

- ❖ Managing for High Performance
- ❖ Effective Project Management
- ❖ Transition Leadership
- ❖ Leadership Training
- ❖ Rewards and Recognition
- ❖ Team Dynamics for Managers
- ❖ Interview Techniques
- ❖ Intranet Computer Skills for Managers

PROGRESSIVE CASUALTY INSURANCE

Menu Curriculum (continued)

Trainees will receive any of the following:

Hours

24 – 200

COMPUTER BASED TRAINING (CBT)

BUSINESS SKILLS

- ❖ Advanced Customer Service Skills:
 - CSI Part One (2.5 hours)
 - CSI Part Two (1.5 hours)
- ❖ Improved Communication Skills:
 - Business Writing for Grammar (1 hour)
- ❖ Advanced Product Knowledge:
 - FAO Cancels (45 min.)
- ❖ State Specifics:
 1. Alabama (15 min.)
 2. Alaska (15 min.)
 3. Arizona (25 min.)
 4. Arkansas (25 min.)
 5. Colorado (30 min.)
 6. Connecticut (15 min.)
 7. Delaware (30 min.)
 8. Hawaii (1 hour)
 9. Idaho (20 min.)
 10. Illinois (20 min.)
 11. Indiana (20 min.)
 12. Iowa (30 min.)
 13. Kentucky (20 min.)
 14. Kansas (10 min.)
 15. Louisiana (20 min.)
 16. Maine (20 min.)
 17. Maryland (20 min.)
 18. Michigan (45 min.)
 19. Minnesota (30 min.)
 20. Mississippi (20 min.)
 21. Missouri (30 min.)
 22. Montana (20 min.)
 23. Nebraska (30 min.)
 24. Nevada (20 min.)
 25. New Hampshire (20 min.)
 26. New Jersey (1 hour)

PROGRESSIVE CASUALTY INSURANCE
Menu Curriculum (continued)

COMPUTER BASED TRAINING (CBT) (continued)

- 27. New Mexico (25 min.)
- 28. New York (1 hour)
- 29. North Dakota (15 min.)
- 30. North Carolina (2 hours)
- 31. Oklahoma (20 min.)
- 32. Oregon (25 min)
- 33. Pennsylvania (1.5 hours)
- 34. Rhode Island (30 min.)
- 35. South Carolina (20 min.)
- 36. South Dakota (15 min.)
- 37. Tennessee (15 min.)
- 38. Utah (20 min.)
- 39. Vermont (15 min.)
- 40. Virginia (20 min.)
- 41. Washington D.C. (30 min.)
- 42. Washington (25 min.)
- 43. West Virginia (20 min.)
- 44. Wisconsin (20 min.)
- 45. Wyoming (20 min.)

- ❖ Strategic Alliance State Specifics (45 min.)
- ❖ Coverage 101 (1 hour)
- ❖ Insurance 101 (1 hour)
- ❖ POP Review (1 hour)
- ❖ Accounting Refresher for CSR's (15 min.)
- ❖ Special Line (SL) Peak Season Reminders (20 min.)
- ❖ License Required Reinstates (20 min.)
- ❖ Special Lines 2005 Model Changes (30 min.)

COMMERCIAL SKILLS

New Developments in Policy Services

- ❖ FAO Mandatory Scripting (30 min.)
- ❖ SAR DocView (15 min.)
- ❖ ESchedule Planner (30 min.)
- ❖ Enterprise Typing Request (30 min.)
- ❖ Special Lines SCC (30 min.)
- ❖ Call Efficiency (30 min.)
- ❖ United States Postal Service (USPS) Confirm It (30 min.)
- ❖ Louisiana Military Discount (30 min.)
- ❖ Drive Insurance.com Awareness (30 min.)

PROGRESSIVE CASUALTY INSURANCE
Menu Curriculum (continued)

COMPUTER BASED TRAINING (CBT) (continued)

- ❖ FAO Redesign (30 min.)
- ❖ Automated Caller Verification (15 min.)
- ❖ CSR Refresher (15 min.)
- ❖ Better Passwords (30 min.)
- ❖ Wrap Up (30 min.)

Advanced Policy Services Issues

- ❖ Additional Billing Problem Solving (2 hours)
- ❖ P.R.O.V.E. Web site (30 min.)

Advanced Product Training

- ❖ 6.0 Beta Screen (15 min.)
- ❖ 6.0 Product Enhancements (30 min.)
- ❖ Driver Workshop (1 hour)
- ❖ Last Change Date As Is (30 min.)
- ❖ Proof of Prior (POP) (1 hour)
- ❖ Vehicle Refresher Workshop (1.5 hours)
- ❖ VIN Overview (30 min.)
- ❖ Verification of Insurance (30 min.)
- ❖ Year/Make/Model (30 min.)
- ❖ Special Line (SL) Advanced Boat (40 min.)
- ❖ Special Line (SL) Advanced RV (45 min.)
- ❖ Special Line (SL) Advanced Product (45 min.)

CONTINUOUS IMPROVEMENT

- ❖ Advanced Decision Making (2.5 hours)

COMPUTER SKILLS

Personal Data Management System Training

- ❖ New Billing System Training:
 - ProBill Overview (45 min.)
 - ProBill Overview for Processing (1 hour)
- ❖ Systems Navigation Training:
 - OWB Search (20 min.)

MANAGEMENT SKILLS -- *These classes are available for Management only.*

Leadership Training:

- ❖ CSI 2 – For Managers (2.5 hours)

<p>Comment: The parties agree that the training identified in this Curriculum may be revised from time-to-time during the term of this Agreement at the request of Contractor and with the prior written approval of ETP. (See also Section 12 in this Agreement.)</p>
